

P-430, 421/CP-86-5 ORDER APPROVING STIMULATION FACTOR FOR SETTLE
UP FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Don Storm | Chair |
| Tom Burton | Commissioner |
| Marshall Johnson | Commissioner |
| Cynthia A. Kitlinski | Commissioner |
| Dee Knaak | Commissioner |

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| In the Matter of the Petition of Certain Subscribers in the Waconia Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area | ISSUE DATE: January 27, 1994 DOCKET NO. P-430, 421/CP-86-5 ORDER APPROVING STIMULATION FACTOR FOR SETTLE UP FILING |
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PROCEDURAL HISTORY

On June 26, 1991, the Commission issue its ORDER CERTIFYING ELECTION RESULTS, DIRECTING INSTALLATION OF EXTENDED AREA SERVICE IN CERTAIN EXCHANGES, REQUIRING IMPLEMENTATION PLANS, AND CLOSING CERTAIN DOCKETS. Waconia, served by United Telephone Company (United), was one of the exchanges for which extended ares service (EAS) was ordered.

On November 19, 1991, the Commission issued its ORDER APPROVING STIMULATION STUDY METHODOLOGY, ESTABLISHING METRO CALLING AREA RATES, AND ESTABLISHING SETTLE UP PROCEDURE. As part of the settle up filing, the Order directed the affected telephone companies to study the actual call stimulation due to EAS for a period of one year after the EAS was installed. The Order directed the settle up filing, including the results of the stimulation study, to be filed within 90 days after the end of the scheduled conclusion of the stimulation study period.

On October 26 and 27, 1993, United, Vista Telephone Company (Vista), Eckles Telephone Company (Eckles), and US West Communications, Inc. (USWC) filed requests for a 45 day extension, until December 13, 1993 to make their settle up filings.

On November 15, 1993, the Commission issued an Order in this matter granting the companies an extension until December 13, 1993 to file their settle up filings.

On December 10, 1993, staff from the Commission and the Minnesota Department of Public Service (the Department) met with representatives of the companies to review the results of the stimulation studies. At that meeting, the companies requested

that the Commission establish the stimulation factor to be used in the settle up filings prior to the submission of those filings and that an extension to make those filings be provided. Specifically, the companies have requested a stimulation factor of 4 for use in their settle up filings and 45 days from the date of the Commission Order to make such filings.

On January 4, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In a February 1, 1991 Order involving the Waconia exchange, the Commission approved EAS rates based on a stimulation factor of 7.¹ In its Order, the Commission indicated that the stimulation factor warranted further study. The Commission stated:

The Commission seeks to develop a more empirically based approach to the stimulation factor question. The Commission, therefore, will require the companies serving the petitioning exchanges to study the growth in toll traffic between the exchanges they serve and the MCA if EAS is adopted in an exchange they serve. The companies shall propose a study methodology to the Commission for approval. The studies of different exchanges added to the MCA shall be consistent so that the results are comparable.²

¹ It is understood that the availability of EAS will stimulate subscribers in the newly admitted exchange to increase the number and duration of calls to other exchanges within the metropolitan calling area (MCA). The percentage increase in such calling occasioned by the switch to EAS translates into what is called an EAS **stimulation factor**. For example, an increase of 600 percent translates into a stimulation factor of 7. The EAS rate is set to recover, among other things, the expense of installing facilities and operating expenses that will be necessary to accommodate this increased calling.

² In the Matter of the Petition of Certain Subscribers in the Waconia Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, et al., Docket Nos. P-430, 421/CP-86-5; P-407, 421, 430, 405, 426/CP-88-839; P-430, 421, 407, 405, 426/CI-90-441; P-430, 421, 407, 405, 426/CI-90-442, ORDER ADOPTING GUIDELINES FOR EXTENDED AREA SERVICE RATES FOR THE WACONIA, MAYER, COLOGNE, AND NORWOOD EXCHANGES AND VARYING TIME FOR FILING FOR RECONSIDERATION (February 1, 1991) at page 6.

The stimulation studies initially compiled by the companies for exchanges including Waconia were not adequate. Although telecommunications networks must be designed to meet peak, not average, demand, the companies produced studies that showed the average stimulation factor for each exchange. The companies reworked their studies, however, and determined average peak busy hour periods. For example, Scott-Rice Telephone Company conducted average busy hour studies between its Prior Lake and New Market exchanges and Belle Plaine, Cologne, New Prague and Waconia and the resulting stimulation factors ranged from 1.849 to 3.311.

While the companies have recommended a stimulation factor of 4, the Department has recommended that the Commission adopt a stimulation factor of 2. The Department stated that if a telephone company felt that circumstances warrant a higher stimulation factor, the company could petition the Commission and prove that this was the case. The Department argued that this approach would better guarantee that companies did not over build. Worse, the Department argued, with an excessive stimulation factor, a company might simply collect rates based on a larger system while not actually providing that system. The Department did not provide evidence of any such instance.

In the February 1, 1991 Order, the Commission noted the reasons for using caution when adopting a stimulation factor. The Commission stated:

...the consequences of underestimating the growth rate are far more serious than overestimating it. If growth is underestimated, adequate EAS facilities will not be installed and the quality of EAS service will suffer. Although they would be paying higher EAS rates, subscribers would experience busy signals during peak use hours. To correct this situation, telephone companies would have to install additional facilities and seek to recover the costs of those additional facilities through increased rates. Subscribers who voted in favor of EAS at one level of rates would quickly find themselves confronted with an increase in EAS rates. The consequences of the companies' overbuilding the EAS system do not appear as significant. Order at pages 6-7.

That general note of caution is still appropriate. It properly guides the Commission in consideration of this present case. In addition, while it may initially appear attractive to tailor stimulation factors on an exchange by exchange basis, the actual reduction in rates resulting from that activity would be negligible. First, the stimulation factor is a de minimis item in the context of calculating EAS rates. Second, for small telephone companies such as Scott Rice there is a threshold

minimum expansion cost that would likely not reduce EAS rates even if the system only needed to meet traffic stimulated by a factor of 2. Finally, it appears that increased administrative activity and the costs incurred by the telephone company in fine-tuning its stimulation factor (costs which would have to be recovered from the customers in EAS rates) on a case-by-case would easily offset any reduction due to using a lower stimulation factor.

In these circumstances, the Commission will require the affected telephone companies to prepare their settle up filing using a stimulation factor of 4.

Regarding the Department's suggestion that companies could be collecting EAS rates calculated for one stimulation factor while not actually constructing the authorized facilities, the Commission would note that this would violate the Commission's understanding in authorizing rates which it calculated to recover (among other costs) **actual** expansion costs. Such a practice would also appear to violate a basic principal of the EAS statute: that telephone companies providing EAS service should be maintained income neutral. Minn. Stat. § 237.161, subd. 3 (b) (1992). It is expected that the Department would bring any actual instances of this to the Commission's attention.

ORDER

1. Within 45 days of the date of this Order, Vista, GTE-Minnesota, Scott Rice, USWC, Eckles and United shall file their settle up filing in this docket using a stimulation factor of 4.
2. Within 45 days of the companies' filings, the Minnesota Department of Public Service (the Department) shall file its comments on those filings.
3. Parties shall have 20 days to file final comments.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)